

## Special Feature

### Southwest Service to Raleigh/Durham

Table 4 of this report lists city-pairs that have experienced at least a 30% drop in average fare compared to the average fare in the fourth quarter of 1998. This quarter, Raleigh/Durham, North Carolina is well represented in Table 4, comprising twelve of the 34 city-pairs on the list.

Southwest Airlines entered the Raleigh/Durham market in June of 1999, providing nonstop service between Raleigh and Baltimore, Chicago-Midway, Nashville, Orlando, and Tampa. MetroJet, the US Airways low-fare subsidiary, also serves Raleigh/Durham nonstop to Boston, Orlando, Tampa, and Washington, DC. Low-fare Delta Express has been a competitor in the Raleigh-Orlando market since 1997.

In order to demonstrate the impact that low-fare service has on traffic and fares, we will examine the change in passenger distribution in the seven aforementioned Raleigh/Durham markets before and after low-fare competition was introduced. Two of those markets – Raleigh/Durham to Boston and Orlando – did not experience a large enough fare reduction in the fourth quarter of 1999 to merit inclusion in Table 4. However, as demonstrated in the table below, fare reductions in those city-pairs fell just short of the 30% criteria, at 29% and 28% respectively.

Raleigh/Durham to -	Average One-Way fare			Passengers		
	1999/4	1998/4	% Change	1999/4	1998/4	% Change
Baltimore, MD	\$69	\$205	-66%	47,012	12,604	273%
Boston, MA	\$132	\$187	-29%	68,172	53,820	27%
Chicago, IL	\$102	\$200	-49%	106,996	66,976	60%
Nashville, TN	\$81	\$168	-52%	47,656	19,872	140%
Orlando, FL	\$81	\$113	-28%	78,844	46,920	68%
Tampa, FL	\$89	\$134	-34%	50,692	28,520	78%
Washington, DC	\$98	\$180	-46%	63,388	38,272	66%

## **Discretionary Markets**

Within the list of seven city-pairs under consideration, Orlando and Tampa are two that are considered traditional discretionary markets. Discretionary markets are heavily traveled by vacationers with flexible travel requirements. As a result, carriers are less able to price discriminate. Even in the absence of low-fare competition, economical fares are generally easy to obtain in discretionary markets. The majority of seats sold in discretionary markets, even without low-fare competition, are at low fare levels. In spite of the relative abundance of seats at low-fare levels, the below charts demonstrate the potential for growth in discretionary markets when more low-fare seats are made available.

The introduction of low-fare service in these markets (or the increase in low-fare service, as was the case in Orlando) not only shifted the fare at which the majority of passengers flew to a lower level, but overall traffic increased greatly. The most frequently sold fare in both markets shifted from between \$76 and \$100 each way to between \$51 and \$75. Traffic grew by 68% between Raleigh and Orlando and by 78% between Raleigh and Tampa.

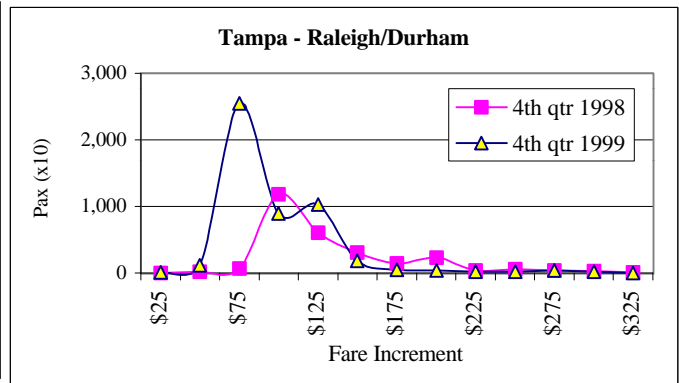
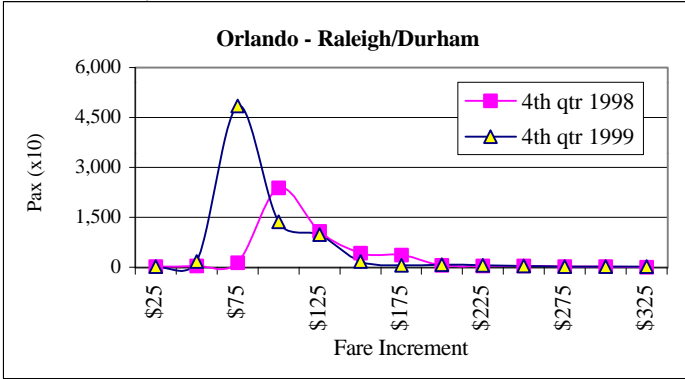
## **Non-discretionary Markets**

The remaining five city-pairs are not vacation markets. Traffic in non-discretionary markets is generally comprised of a more even mix of leisure and business passengers. Time sensitivity on the part of business travelers increase an airline's ability to price discriminate through yield management and the application of travel restrictions. In all five non-discretionary city-pairs the 'before' distribution of passengers reveal a similar pattern. Fares are sold to passengers in two distinct clusters: the first cluster appears between the \$76 and \$125 fare categories. The fare level of the second cluster varies by city-pair, but is found in all cases at or above the \$250 level each way.

The introduction of low-fare competition in all five city-pairs alters the distribution of traffic across fares in a like manner. The first cluster shifted to a lower fare level (as occurred in Tampa and Orlando), and expanded considerably. The high-end cluster dissipates altogether or shifts to a lower level as well. Most notable is the overall passenger growth in non-discretionary markets when more low-fare seats become available. This growth, as well as the shift in passenger mix, suggests that the dual-clustered passenger mix found in all five markets prior to low-fare entry was not representative of free market demand, but was dictated by supplier-controlled seats and fares.

Special Feature Charts  
4th Quarter 1999

Discretionary Markets



Non-discretionary Markets

